

## Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** John Stufflebean

**SUBJECT:** SEE BELOW

**DATE:** 05-30-06

Approved

Date

6-25-06

**COUNCIL DISTRICT:** 2, 4, 7, 8

**SUBJECT: PROPOSED MUNICIPAL WATER SYSTEM POTABLE WATER RATE INCREASE FOR 2006-07 AND REVISION OF SYSTEM RULES AND REGULATIONS TO IMPLEMENT CONSOLIDATED - UTILITY BILLING SYSTEM PROVISIONS INCLUDING NEW WATER PAYMENT DUE DATES AND LATE CHARGES**

### RECOMMENDATION

1. Adoption of a resolution increasing the San José Municipal Water System potable water rates by \$0.09 per hundred cubic foot or approximately 4.3% effective August 1, 2006, and repealing Resolution No. 72755.
2. Adoption of a resolution revising the rules and regulations applicable to water service provided by the San José Municipal Water System, and repealing Resolution No. 65821, to implement the Consolidated Utility Billing System, including the establishment on new billing due dates and late charges effective July 1, 2006.

### OUTCOME

Approval of this rate resolution will allow San José Municipal Water System (SJMWS) to increase retail water rates by \$0.09 per hundred cubic foot (HCF), effective August 1, 2006, to increase operating revenues by approximately \$837,000 to cover increased wholesale water costs; and will revise the rules and regulations applicable to water service to implement the Consolidated Utility Billing System (C-UBS), effective July 1, 2006.

## **BACKGROUND**

The SJMWS is a self-sustaining rate-funded utility providing water service to 26,500 accounts with an approximate population of 120,000 in the North San José, Alviso, Evergreen, Edenvale, and Coyote Valley areas.

The main source of supply to the North San José/Alviso area is water purchased from the San Francisco Water Department (SFWD), which delivers treated water through its Hetch Hetchy Aqueduct from the Sierra. The Evergreen area is primarily supplied by water purchased from the Santa Clara Valley Water District (SCVWD) delivered through the State Water Project and Federal San Felipe Project. The Edenvale and Coyote areas are completely dependent on local groundwater. All groundwater in Santa Clara County is under the jurisdiction of SCVWD. Overall, SCVWD supplies approximately 75 % and SFWD supplies 25 % of the water purchased by SJMWS customers.

SFWD and SCVWD are both implementing major capital improvement programs. These capital improvement programs include replacing and upgrading major distribution water lines to withstand seismic events and water treatment facilities to meet stricter water quality standards. To fund these programs, it is anticipated that wholesale water rates will be drastically increasing over the next ten years. As shown in the table below, SFWD and SCVWD are proposing to increase rates by 16.7% and 4.9% respectively. Preliminary projections from SFWD and SCVWD show an 8.6% and 5% increase in wholesale water cost respectively for FY 2007-08.

On May 2, 2006, Council approved a series of actions related to implementation of the C-UBS, including new dates and late charges for SJMWS bills. The new billing system is designed to enhance the City's effort to implement standardized and streamlined utility billing, collection and account management processes for Recycle Plus and SJMWS customers.

## **ANALYSIS**

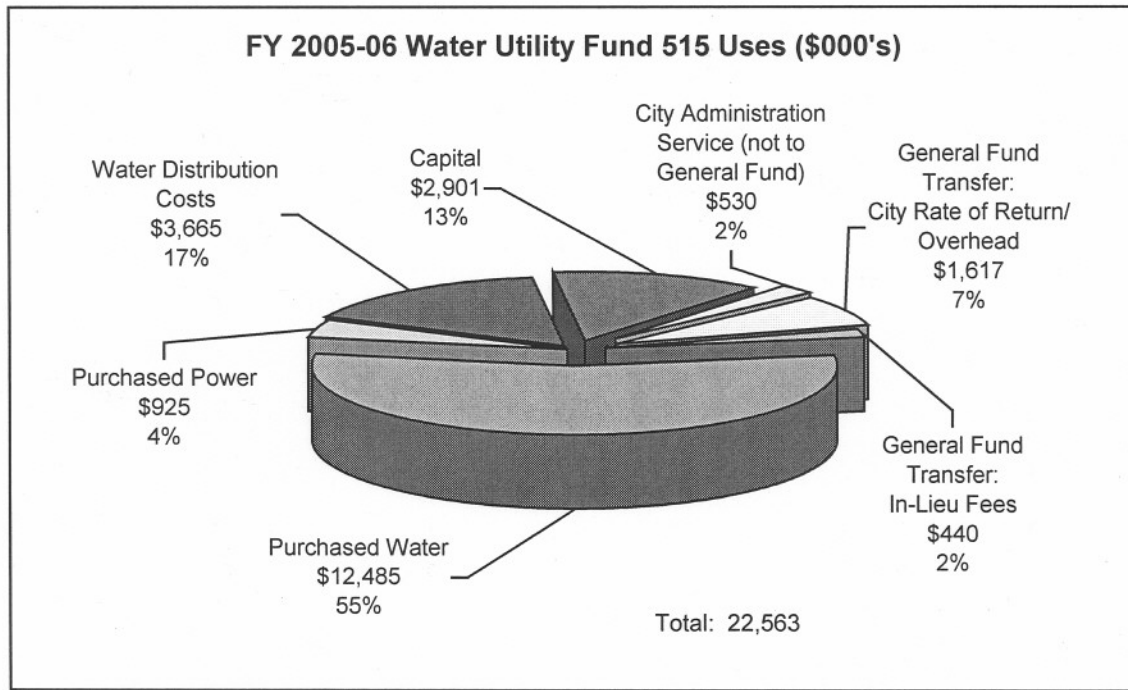
### **Water Rates**

SJMWS's two principal sources of revenue are water sales and fixed monthly meter service charges. Approximately 55 % of SJMWS's operating budget is applied to purchase wholesale water as shown below.

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The wholesale water costs are expected to increase as follows:

	05-06 (Current)	06-07 (Proposed)	% Increase
	<u>\$/AF</u>	<u>\$/AF</u>	
SCVWD	\$510	\$535	4.9%
SFWD	\$444	\$518	16.7%

It is estimated that during FY 06-07, total water purchases will reach 22,497 AF. The wholesale water increase will result in an additional cost to SJMWS of \$821,537 as shown below. SJMWS is proposing to increase retail water rates by approximately 4.3% for FY 06-07 to recover these projected increases.

<u>Source</u>	<u>Projected Water Purchases AF</u>	<u>Increase \$/AF</u>	<u>Total Cost Increase</u>
SCVWD	17,209	\$25	\$430,225
SFWD	<u>5,288</u>	\$74	<u>\$391,312</u>
Total	22,497		\$821,537

If no rate increase is implemented, the continued escalating wholesale cost of water will deplete the reserves and compromise the financial health of the utility.

#### Other Water Agencies

Water agencies within Santa Clara County that receive water from SFWD or SCVWD have also proposed to raise their water rates effective July 1, 2006, as shown below to recover wholesale rate increases and other inflationary costs.

<u>City</u>	<u>Current Monthly Bill</u>	<u>Proposed Increase</u>	<u>Proposed Monthly Bill</u>
Palo Alto	\$58.15	7.0%	\$62.22
San José Water Company	\$44.33	8.6%	\$48.14
Cal Water - Los Altos	\$40.16	3.0%	\$41.36
Mountain View	\$37.64	10.0%	\$41.40
Milpitas	\$37.49	6.7%	\$40.00
City of San José - Muni Water	<b>\$31.33</b>	<b>4.3%</b>	<b>\$32.68</b>
Great Oaks	\$31.02	5.2%	\$32.62
Sunnyvale	\$28.30	11.5%	\$31.55
Santa Clara	\$27.20	7.0%	\$29.10

The above figures are for water use of 15 HCF (12,716 gallons) and 5/8" x 3/4" water meter.

#### Impact on Customers

Under the proposed rate schedule, the average SJMWS customer that uses 15 HCF (12,716) gallons, the monthly water bill will increase by \$1.35 from \$31.33 to \$32.68.

#### Compliance with Ordinance 26903

The proposed rate increase and the SJMWS Operating and Capital budgets for 2006-07 comply with all provisions of Ordinance 26903 passed by the Council on May 27, 2003. The SJMWS budget includes the following:

- A Capital Reserve of \$1,607,000 equivalent to 7% of annual operating revenues.
- A Rate Stabilization Reserve of \$1,148,000 equivalent to 5% of annual operating revenues.
- Total transfers to the General Fund are capped at 8% of total revenues, approximately \$1,758,400.
- The Public Notification provisions are addressed below.

### C-UBS Implementation

The rules and regulations applicable to water service provided by the SJMWS were last revised in 1995. These regulations need to be revised in order to implement the C-UBS for SJMWS customers:

- Change bill payment due date from 20 days from the date of billing, to 25 days for residential customers and 45 days for commercial customers.
- Change late fee from \$7.50 to \$5.00 or 5% of the bill, whichever is greater.
- Change address for notifications to City.
- Consistent with the implementation of C-UBS, resolution of any disputed bills will be under the authority of the Finance Director.

### ALTERNATIVES

Not applicable.

### PUBLIC OUTREACH

SJMWS will be publishing a notice in the newspaper at least 15 days in advance of City Council consideration and sending a notice with the water bills as required by Ordinance 26903. In addition, SJMWS also sent a direct mailing to all the customers notifying them about the scheduled Council hearing for the proposed rate increase and due date and late charge changes. SFWD and SCVWD held public hearings in April and May 2006.

### COORDINATION

This memo was coordinated with the City Attorney's Office, Finance and the Manager's Budget Office.

### COST IMPLICATIONS

Not applicable.

### BUDGET REFERENCE

Not applicable.

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**CEQA**

Not a project.



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